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MOREFIELD
communications, inc.
voice, data and video systems

October 29, 1996

Chairman Reed Hunt
Federal Communications Commission
1919 M Street NW
Washington DC 20554

RE: Docket 96-61

DOCKET FILE COPY ORIGINAL

Dear Chairman Hunt:

I am writing to express my strong opposition to the Commission's proposal to allow inter-exchange carriers the ability to bundle Customer Premise Equipment (CPE) with unregulated transmission services. The opposition comes from years of experience in our business as a competitive CPE provider. Our company sells, installs, and maintains telephone and data network equipment to over 5,000 customers in Central Pennsylvania.

Our opposition to Docket 96-61 comes from our understanding of the competitive market behavior demonstrated by the IXC's and local Telco utilities. The capability to bundle CPE product offerings in with long-distance services is a threat to fair pricing for CPE customers. The reality is that those end users that do not have a need to purchase CPE will be, in essence, funding the CPE acquisitions of unrelated end users that have both a CPE and network arrangement in a bundled fashion by the IXC's. These factors will drive up costs and these costs will be shared by all unfairly.

As proposed, Docket 96-61 enables the IXC's to cross-subsidize business activity as economies are developed in one area or the other. With the leverage that comes from their tremendous buying capability, and the interest that attracts vendors to the IXC's infrastructure needs, price competition is not attractive.

As importantly, with the impact of these pricing scenarios, customer value for service and support of the network will not be realized. IXC's have clearly demonstrated an inability to maintain long-term customer relationships. The primary selling point is price. During the length of a network term contract, they have very little incentive to support the customer. I have witnessed as many as 6 different sales reps on a single account over a 3-year period. At some point, the customer is forgotten.

One of the prime values CPE equipment provides is leverage of network alternatives. This value contradicts the unstated bias of the IXC's to expand their network. As the long-term revenue generated by long distance sales strongly out-paces CPE revenue, this bias will be strong. In the interest of efficiencies from a business environment, a competitive market to offer CPE would be undermined by an IXC's bundled CPE offerings.

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Chairman Reed Hunt
Federal Communications Commission

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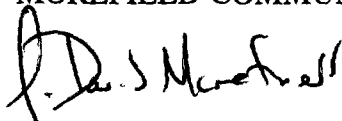
To the extent that the IXC's are able to shift cost structures, these examples are much more disquieting. In the past 8 years, we have been competing with Sprint/United Telephone, which has routinely emphasized its interest in completely controlling a customers' network. We have discovered many situations in which they market services at or below cost in an effort to retain their CPE relationship. They do this by shifting costs to their local regulated utility organization. While difficult to prove directly, we have experienced many examples in which it's highly likely that this has been going on. This makes competition in their marketing area discouraging and unprofitable.

When a customer makes a CPE choice, even if Sprint/United does not design the solution, they are often invited to bid simply because the customer knows that they will sell at a very low cost. At some point, it is unreasonable to assume competition will continue in these areas. Several letters detailing these abuses have been attached for your reference with an article from the New York Times illustrating their marketing strategy.

If these abuses are allowed to continue, Docket 96-61 will be a further way of covering their tracks. I therefore urge the Commission to retain the current rule, thereby allowing us to continue to provide choice to customers.

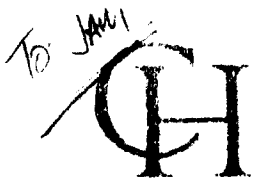
My best,

MOREFIELD COMMUNICATIONS, INC.



J. David Morefield
Vice President/General Manager
e-mail: david.morefield@morefield.com

cc: Commissioner Quello
Commissioner Ness
Commissioner Chong
William A. Caton



THE CHAMBERSBURG HOSPITAL

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April 6, 1993

Keith Solsky
Morefield Communications, Inc.
35 North 35th Street
Camp Hill, Pennsylvania 17011

Dear Keith:

It is with mixed emotions that I am informing you of the Chambersburg Hospital's decision to proceed with United Telephone-Eastern for its telecommunications system.

As you know, this selection process was a difficult one despite United Telephone's extremely favorable pricing. In the final analysis, we could not justify, or truly quantify, any additional value added benefit provided by Morefield versus that that could be provided by United Telephone-Eastern. This coupled with a substantial difference in the system cost led us to select United. It became obvious to the hospital, during the past few weeks of final negotiation, that United Telephone-Eastern was anxious to retain the Chambersburg Hospital as one of its customers. Given that scenario, it is almost impossible for Morefield, or any other entrepreneurial company, to compete.

On behalf of Patrick O'Donnell, Ron Benner and myself, I would like to extend our sincere thanks and appreciation to Morefield Communications for your interest in the Chambersburg Hospital. I personally have enjoyed the interaction with you and Michael. You both were very good at explaining the system's features in layman's terms and your professionalism is to be admired.

Our decision by no means precludes any future dealings with Morefield by the Chambersburg Hospital.

If you have any questions, please do not hesitate to contact me at 267-7139.

Sincerely,

John P. Massimilla
Vice President, Administration

JPM/s

cc: Patrick O'Donnell
Ron Benner

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JOHN A. MOREFIELD, P.E.
MEMORANDUM

TO: David Morefield, Mike Whiteman

RE: Bill McDonald, United Telephone Co., Carlisle

DATE: September 1, 1993

I met with McDonald on July 29th to discuss our serious concern about the issue of their pricing for telecommunications systems that are offered in competition to us in the non-regulated marketplace.

I asserted that there is a pattern of pricing by UTS that is near, equal, or below our own cost; that we suspect that this is offset by cross subsidy opportunities from the regulated services; that this predatory pricing is unfair to us; that those customers who benefit from the "at cost" pricing will never complain; that the effects of this largesse are borne by the general public in terms of the regulated, non-competitive pricing for exchange services; and that we intend to block any of their present or future rate increase requests by vigorous efforts at the PA Public Utility Commission.

McDonald denied my allegations, of course. He said there was no corporate strategic intention along this line, and made no commitments to do anything further about it.

He talked about the partitioning of the firm, as required by the Federal Communications Commission, into the regulated and non-regulated sides. This typically extends to personnel, facilities, accounting, etc. They file annual reports with the FCC certifying this. I questioned if the PUC also got a copy so they can monitor UTS's performance. Apparently not! Without this, I suspect the PUC is unable to observe the total situation. And consequently they are blind to cross subsidy issues.

He also said the non-regulated side of the business

- has an advantage over us in cost of purchased equipment, offset somewhat by our labor cost advantage.
- has profit goals and they are coming close to meeting them
- has sales goals and is getting 40% of their business outside of their utility franchise territories, although the overall level of sales is down from previous years
- "makes money on some jobs, loses on others - which is normal for them". (Not the same with us though)

I suggested to McDonald that he look into the detailed operations of the group that is in Central PA and be sure he knew what they were doing, perhaps without appropriate supervision. "I am

blowing the whistle", I said.

In retrospect my meeting with McDonald may be sufficient to get some corrective actions internally within UTS by calling his attention in this manner. Time will tell!

As a sequel, I picked up in the news a few days later that McDonald is being transferred to a new job in North Carolina effective August 15th, and that his replacement is Dale Cross from Hazleton. I am sure he was aware of the pending unannounced changes when we met, and perhaps thought he had no on-going responsibility to be concerned about my alert. I intend to send him a thank you letter for the meeting, congratulate him on his new job, and remind him, and by copy to Cross, of our intentions to pursue this matter.

I shall also re-contact the Consumer Advocate at the PUC and update them on this matter, and ask them to invite our participation when the PUC restarts the UTS rate case.

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NOV 5 1996
New. United

UTS 245-6144

Bill McDonald out tel 7/29 -

Dottie Rice - Act,

RECEIVED JOHN A MOREFIELD JR.

FROM: MICHAEL E WHITEMAN
RE: REVIEW OF PREDATORY PRICING BY UNITED TEL CO
DATE: 7/12/93

The below list of lost sales opportunities reflects several locations where United Tel Co displayed some very aggressive pricing tactics. At several of these locations we would have had to bid the job at or below our cost in order to match their offer. At one location, Sheetz, we enjoyed a considerable cost advantage over United but they still underbid us. In addition to an unusually low system selling price United has also offered to perform additional installation duties that will add to their internal costs. They also claim to not charge for the first year warranty service. This warranty reserve is typically 5.5% of the system's installed price.

I am basing these assessments on my belief that United Tel Co enjoys a cost advantage of about 3% in comparison to our own material cost.

United used this pricing approach to win the below accounts.

Gettysburg Hospital:

Installation Date: Summer 1990
Our bid price: \$ 334,324
Our projected profit margin: 18%
United Tel Co's successful bid price:

\$250,000.66 approx (Consultant said 25-30% less)
UTS price is 9% under our cost

Mercersburg Academy:

Installation Date: Summer 1992
Our bid price: \$ 671,288
Our projected profit margin: 20%
United Tel Co's successful bid price:

\$ 64,488 (actual from business mgr.)
UTS price is 13% over our cost

Chambersburg Hospital:

Installation Date: LATE SUMMER OR FALL OF 1993
Our bid price: \$504,900.
Our projected profit margin: 21%

United Tel Co's successful bid price: PER THE CUSTOMER THEY WERE ABOUT 20% UNDER OUR PRICE. AT THE LAST ROUND THEY INCLUDED THE SECOND YEAR WARRANTY AT NO COST (VALUE OF \$ 23,000) AND EXPANDED THEIR CABLING RESPONSIBILITIES BEYOND THE CUSTOMER'S STATED REQUIREMENTS.

UTS Price is 6% under, our cost

allow 7000

Sheetz Brothers, Altoona Pa.
Installation Date: SUMMER 1993
Our bid price: \$85,300, WHICH DID REFLECT A \$14,700 COST REDUCTION THAT WE HAD FOR THIS ACCOUNT DUE TO A MANUFACTURERS MARKETING PROGRAM.
Our projected profit margin: 25%
United Tel Co's successful bid price: \$80,000.. THE CONFIGURATION THAT THEY PRESENTED AT THIS COST INCLUDED AN ADDITIONAL CIRCUIT CARD THAT WE HAD NOT INCLUDED. THIS CARD HAS A MANUFACTURERS COST OF ABOUT \$ 7,500.

IN THE ABOVE EXAMPLE OUR NORMAL MATERIAL COST AND WARRANTY RESERVE WOULD HAVE TOTALLED \$75,719 WITHOUT THE SPECIAL PROGRAM FROM THE MANUFACTURER. WE TYPICALLY CHARGE \$7,500 IN LABOR TO PROGRAM, INSTALL AND TRAIN THE USERS. THIS WOULD HAVE INCREASED OUR PRICE TO OVER \$83,000 AND WE HAVE NOT YET MARKED UP THE SYSTEM! AT A 25% MARGIN THE UPLIFT WOULD BE \$23,489 FOR A TOTAL OF \$106,708, OR OVER 33% ABOVE THEIR OFFER. *UTS Price is 8% under our cost,*

STATED ALTERNATIVELY, I ESTIMATE THAT UNITED WILL EARN A 15% MARGIN ON THE MATERIAL COSTS ON THIS JOB. THIS MEANS THAT THEY WILL NOT COVER THEIR INSTALLATION LABOR EXPENSE, NOR THEIR WARRANTY EXPENSE.